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SUBJECT: BUSINESS CRITICISM OF GOVERNMENT INTENSIFIES

REF: A. ANKARA 1629

[1](#)B. ANKARA 1528

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This message was coordinated with Embassy Ankara.

[1](#)1. (U) Summary: Business criticism of recent Turkish Government missteps on the economy has intensified in recent days, as business leaders have grown increasingly concerned about the potential impact of protracted uncertainty surrounding the leadership of the Turkish Central Bank. Former Chairman Sureyya Serdengeçti's five-year stewardship of the institution through the aftermath of the 2001 crisis is almost universally credited with having provided the monetary anchor that enabled Turkey to achieve single digit inflation. Concern is widespread that his successor will not have the same credentials or independence from the government. Ironically, the debate comes at a time when Serdengeçti's critics, mainly textile exporters who have suffered from a perceived "overvaluation" of the Turkish lira, have also been extremely critical of the government, arguing that its promised assistance to the their industry is too little, too late. End Summary.

[1](#)2. (SBU) Istanbul-based business organizations have been increasingly critical of the Central Bank appointment process in recent days as it (in the words of newspapers here) has degenerated from "comedy to farce." Turkish Industrialists and Businessmens' Association President Omer Sabanci forthrightly told the daily "Sabah" here that the appointment process has been mishandled, and that the government needs to come up with a name that will "give confidence both to domestic and foreign markets." Echoing something we have heard frequently in private from many contacts, Sabanci also questioned why a change needed to be made at the bank. It had a "very successful governor and management and this was accepted by everybody," Sabanci told Sabah, and "we wonder why Sureyya Serdengeçti was not appointed again." Sabanci added a warning that the Central Bank cannot join the ranks of the numerous government institutions that are headed by Acting Chiefs, when President Sezer rejects a government appointment. "The Central Bank cannot afford such interim management," he said. Privately, a senior banker here told us that many perceive that the government believes that it has achieved an economic plateau that allows it to dabble in politics and to fiddle with institutions like the bank. "They are too unsophisticated to recognize that fine-tuning the economy requires daily effort," he said.

[1](#)3. (SBU) The criticism from the Istanbul establishment comes at a time when the GOT has been facing separate attacks from textile manufacturers-- who disliked Serdengeçti and would be

happy to see a loosening of the bank's monetary policy-- but who remain disappointed that the sole measure of support they have gained from the government to date is a VAT tax cut that marginally benefits domestic yarn producers, but provides no assistance to beleaguered exporters. One Central Anatolian-based textile manufacturer who produces higher-end denim products for export told us recently that the criticisms have some merit. While not among those who have spoken out publicly, since his high-end strategy has insulated him from the effects of the lira's high value, he noted that the VAT cut is of little help to anyone but consumers, since it applies equally to domestic and imported products. Given that exporters already receive a rebate of whatever VAT they pay, whether it is 18 or 8 percent is of little consequence.

¶4. (U) Disappointment with the measure led to a tense showdown between Prime Minister Erdogan and the head of the Istanbul Textile Makers Export Association (IKTIB), Suleyman Orakcioglu, at a meeting at the Istanbul Chamber of Industry last week. Orakcioglu claimed that the GOT had been duped by a few yarn producers and that the VAT cut would have little impact on the sector. He warned of dire consequences for the overall economy, given that the sector, though declining, accounts for 19 billion USD in exports and employees millions. "Those who tell us to give up on this sector cannot replace it with anything else," he argued, and he pressed for an "equal environment with our competitors." Ironically, the textile industry has been among Serdengeçti's strongest critics, pressing for speedier rate cuts and believing that his exchange rate policies allowed the lira's overvaluation.

¶5. (U) In his remarks at the Chamber, Prime Minister Erdogan, criticized Orakcioglu for fear-mongering, arguing that it is

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not fair to argue that the Turkish economy is on the brink of a crisis. He defended the government's policy on textiles, noting that the VAT cut was among the priorities the sector identified, together with input and labor costs and the size of the unregistered economy. We are doing what we can with limited resources, he said, including a reduced corporate tax rate, a VAT reduction, and investment incentives for 49 provinces. "Nobody has thanked us," Erdogan concluded, "and if you are still suffering, it is your fault." The government also secured support from two major yarn producers, Ahmet Zorlu of Zorlu Holdings and Abdulkadir Konukoglu of Sanko, who confirmed the Prime Minister's point regarding the importance of the VAT cut, and noted the government's commitment to address other issues over time. "We have obtained positive relations with the government, and should not spoil it," they said.

¶6. (SBU) Comment: The government's mishandling of the Central Bank appointment, and concern that a similar problem will arise this week surrounding the Banking Supervision and Regulatory Agency (Chief Tevfik Bilgin's term expires on April 6) has unsettled both Istanbul business circles and markets, with the Turkish lira dropping to its lowest level of the year. As Ankara has reported (reftels), market and business unease with the Central Bank situation has been compounded by concern with the "populist" VAT rate cuts the government has announced, which most believe augur an unsettled period in IMF-GOT relations. TUSIAD's warning is a reminder that while big business here has tolerated the AKP government, that tolerance has been conditioned on the government's delivery of strong economic results. If the government falls short on that front, those business circles, which have never shared AKP's ideology, could turn on the government and make problems for it. The irony is that the putative beneficiaries of the largesse that has created some of these problems are themselves not satisfied, and continue to agitate against the government. The resulting uncertainty is a reminder that weather can change very rapidly on the Bosphorus, and a protracted sunny period is not a foregone

conclusion, whether in the Turkish economy or in the skies
above Istanbul. End Comment.
JONES